

UNITED STATES OF AMERICA 112 FERC ¶61,231
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Nora Mead Brownell, and Suedeem G. Kelly.

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| California Independent System Operator Corporation | Docket Nos. ER04-445-010 |
| Pacific Gas and Electric Company | Docket Nos. ER04-443-008 |
| San Diego Gas and Electric Company | Docket Nos. ER04-441-008 |
| Southern California Edison Company | Docket Nos. ER04-435-013 |
| | (Not Consolidated) |

ORDER GRANTING EXTENSION of TIME AND MOTION FOR CLARIFICATION
AND DENYING REQUEST REHEARING

(Issued August 26, 2005)

1. In this order, the Commission grants in part, and denies in part, a joint request for clarification and rehearing, and a motion to postpone a portion of the compliance filing (Motion) filed by three Participating Transmission Owners (PTOs)¹ - Southern California Edison Company (SoCal Edison), Pacific Gas and Electric Company (PG&E), and San Diego Gas & Electric Company (SDG&E). The Commission will grant a waiver of the compliance filing effective date for the issue of the interconnection study function until October 14, 2005.

¹ A Participating Transmission Owner is a California entity which has placed its transmission assets and entitlements under the ISO's Operational Control. *See* Master Definitions Supplement of the CAISO OATT. PG&E, SoCal Edison, and SDG&E are the PTOs that have been active in this proceeding.

I. Background

2. On August 1, 2005, the PTOs filed a joint request for clarification and rehearing, and a motion to postpone a portion of the compliance filing in response to the Commission's Order Accepting in Part and Rejecting in Part Order Nos. 2003, 2003-A, and 2003-B Compliance Filings.² In their Motion, the PTOs seek clarification, or alternatively request rehearing, of Paragraphs 55-57 of the July 1, 2005 Order, and rehearing of Paragraph 161.
3. Paragraphs 55 to 57 of the July 1, 2005 Order require California Independent System Operator Corporation (CAISO) to develop a centralized study process for the CAISO Transmission Grid in which CAISO itself conducts the studies. In their Motion, the PTOs express concern that the 60-day compliance filing deadline set by the July 1, 2005 Order does not allow enough time to develop a more centralized study process, receive stakeholder input, and implement required tariff and contract changes, and may create safety, reliability, and customer service concerns.
4. Instead, the PTOs request that the Commission require CAISO to submit a status report on August 30, 2005 rather than tariff revisions. Until a centralized approach for conducting system studies is accepted by the Commission, the PTOs propose that the parties make their Large Generator Interconnection Procedures (LGIP) and Large Generator Interconnection Agreement (LGIA) compliance filings with study procedures as proposed in the original LGIP and LGIA filings. The PTOs argue that during the transition period, they must be able to continue to perform the interconnection studies in order not to delay interconnections.
5. The PTOs claim that the 60-day deadline violates due process because it does not allow sufficient time for stakeholder input. They claim that the Commission failed to articulate why the transition needs to occur so quickly or how this transition could properly occur in such a short amount of time, given that they have been performing the interconnection studies since the inception of their respective transmission systems. According to the PTOs, CAISO has represented to them that the transition cannot be completed until at least the end of 2005, but more time might be required. They request that the Commission allow at least six months for completion of a stakeholder process.
6. The PTOs further state that 60 days does not allow enough time to implement the necessary contract and tariff changes required by the July 1, 2005 Order. They note that in addition to CAISO's tariff, the LGIP, LGIA, and *pro forma* study agreements, the Transmission Control Agreement may also need to be amended. The PTOs further state

² *California Indep. Sys. Oper. Corp.*, 112 FERC ¶ 61,009 (2005) (July 1, 2005 Order).

that other contractual arrangements between CAISO, the PTOs, and generators may need to be revised, and that these parties have had no opportunity to discuss possible changes.

7. The PTOs express concern that the 60-day transition will raise reliability, safety, and customer service concerns on their facilities and on the transmission system as well. They assert that CAISO does not have enough staff resources or expertise to perform the interconnection studies within the next 60 days. They add that many of the data files used by the PTOs are in different non-standard software formats. The PTOs further state that they have numerous interconnection requests in various stages of the interconnection process, making it virtually impossible for CAISO to hire sufficient, qualified staff within 60 days to be able to timely perform all of the necessary interconnection studies.

8. The PTOs request clarification regarding their role in the new centralized study process. First, the PTOs request that the Commission clarify that they will have review and consent rights for any study process that CAISO would physically conduct. The PTOs further state that parties must have an opportunity to resolve disputes through CAISO's dispute resolution process. They believe that the only feasible approach to study centralization is for CAISO to direct and coordinate the study process, while the PTOs actually perform portions of the studies. If the Commission will not allow for PTO review and consent with respect to the studies, they request rehearing on this issue on the grounds that it violates the Federal Power Act (FPA) and is inconsistent with the Commission's 1997 order establishing CAISO.³

9. The PTOs also seek clarification about whether the Commission intended to prohibit the PTOs from physically performing all or part of interconnection studies under the direction of CAISO. They explain that each PTO maintains a staff with specialized skills to provide the cost and time estimates required for the Feasibility, System Impact, and Facility Studies, while CAISO does not currently have staff with these skills. Since the PTOs will have to continue to employ this staff to maintain the transmission system, the PTOs state that it would be more efficient to allow them to physically perform these studies under CAISO direction and oversight. Further, each PTO has developed different methods to achieve the same reliability criteria that CAISO would have to learn. As a result, it would be much more efficient and effective for the PTOs to at least remain responsible for estimating the cost of facilities and schedule for construction. The PTOs further argue that they should continue to perform the Short Circuit Duty Analysis because CAISO does not have the relevant data to develop an accurate base case needed to perform studies.

³ The PTOs cite *Pacific Gas and Electric Co.*, 81 FERC ¶ 61,122 at 61,489 (1997), stating that the Commission rejected the proposal to transfer responsibility for Facility Studies from the PTOs to CAISO.

10. The PTOs request further clarification that the Commission intended to direct CAISO to develop the centralized study process in coordination with the PTOs and relevant stakeholders. If the Commission denies this requested clarification, then the PTOs alternatively seek rehearing of this ruling.
11. The PTOs move to postpone the compliance deadline for revising the interconnection study function, stating that the Commission should allow a minimum of six months to allow the PTOs and CAISO to conduct a stakeholder process and develop a consensus proposal regarding the centralization of the study process.
12. If the Commission does not clarify the July 1, 2005 Order, then the PTOs request rehearing of the transfer of the interconnection study function to CAISO as a violation of the FPA.
13. The PTOs also request rehearing of Paragraph 161 of the July 1, 2005 Order. Paragraph 161 rejected CAISO and the PTOs' proposal to amend *pro forma* LGIA article 11.5 to require Interconnection Customers to post additional security for four months' worth of operation and maintenance (O&M) expenses, as well as estimated removal costs. According to the PTOs, the July 1, 2005 Order enumerated four reasons for rejecting their proposal to require additional security: (1) Order No. 2003 does not require the posting of such security; (2) the proposed security revenue requirement "is unreasonable given that O&M expenses should be included in the PTO's transmission revenue requirements"; (3) CAISO did not explain why it needs additional security for O&M expenses; and, (4) CAISO did not explain why it proposes security for removal of a PTO's Interconnection Facilities.
14. The PTOs state that while Order No. 2003 does not require the posting of security for O&M and removal costs, it was reasonable for CAISO and the PTOs to add a provision requesting this additional security to protect the PTOs in the event that the Interconnection Customer fails to cover these costs. The PTOs note that their proposal requires the Interconnection Customer to provide security to the PTO who owns the Interconnection Facilities rather than to CAISO. Therefore, the Commission's concern that CAISO failed to justify the need was misplaced. The PTOs further state that O&M expenses are not included in their transmission revenue requirements. According to the PTOs, Interconnection Facilities are those facilities installed for the sole use and benefit of the Interconnection Customer and cannot be part of a PTO's transmission system that has been turned over to CAISO's operational control. Therefore, the PTOs ask for rehearing of this issue.
15. On August 10, 2005, CAISO filed an answer in qualified support of the PTOs' motion for an extension. CAISO agrees that a stakeholder process is necessary to consider changes to the existing interconnection study process resulting from the July 1, 2005 Order. CAISO qualifies its support because it feels that a six-month extension is

more time than is needed. Instead, CAISO asserts that an extension of approximately six weeks to October 14, 2005 on the issue of the centralized study process should be enough time to receive stakeholder input. CAISO states that it and the PTOs have already made substantial progress in developing the requisite centralized study process, and that the additional time will allow stakeholder input and the incorporation of feedback into the final compliance filing.

II. Discussion

Procedural Matters

16. Rule 213(a)(2) of the Commission's Rule of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2005), prohibits an answer to a request for rehearing unless otherwise ordered by the decisional authority. We will accept CAISO's answer because it has provided information that assisted us in our decision-making process.

Request for Additional Time

17. Based on the additional information provided in the PTOs' Motion and CAISO answer, we will grant additional time for CAISO and the PTOs to develop a proposal for centralized study procedures through a collaborative stakeholder process, and to prepare for filing the resulting tariff and contract revisions. CAISO asserts that this process is already well under way, with two stakeholder meetings planned for September. Therefore, while additional time for CAISO and the PTOs to develop a centralized study process is warranted, we are not persuaded that six additional months are necessary to complete this process. We grant CAISO's request for an additional six weeks, and extend the deadline for the centralized study compliance to October 14, 2005.

Clarifications of the System Study Process

18. In its Order No. 2003, 2003-A, and 2003-B compliance filings, CAISO proposed that because of the PTOs' historic experience with their respective systems, the PTOs should perform the interconnection system studies. We rejected this proposal because the study process would have relied solely on technical information provided by the PTOs and would have focused on the individual PTO service territories, rather than looking at the CAISO Grid as a whole and utilizing additional expert sources for alternative data and analysis, as appropriate.

19. The PTOs have requested clarification or rehearing on several aspects of Paragraphs 55 through 57 of the July 1, 2005 Order. Since we grant the requested clarifications, we do not address the alternative requests for rehearing. First, the PTOs ask for clarification that the July 1, 2005 Order intended for CAISO to develop the centralized system study process in coordination with the PTOs and relevant

stakeholders. We clarify that CAISO should collaborate with interested stakeholders, including the PTOs, to develop a proposal for a centralized system study process.

20. On the question of whether PTOs may participate in the studies, we find that they may do so, with the qualifications described below. During the interim period, before the Commission accepts a full proposal for system study centralization, the PTOs may continue to physically conduct the studies, as directed by and with oversight from CAISO.

21. As the Commission stated in its July 1, 2005 Order, we find that, as an independent entity, CAISO must manage its interconnection policy and procedures including its system study process so that an interconnecting generator is not unduly burdened by coordinating multiple studies with the PTOs. Therefore, the revised centralized study procedures resulting from the ISO's proposed collaborative stakeholder process may allow the PTOs to participate in the studies, including conducting certain studies, under the direction and oversight of CAISO. However, those studies should generally be limited to areas where either the PTOs have very specific and non-transferable expertise or data and it is determined that it is most efficient and cost effective for the PTOs rather than CAISO to conduct those studies. These procedures must also allow for appropriate expert review from sources available to CAISO to ensure an independent review of the results of the studies conducted by the PTOs.

22. The PTOs also request clarification that they will have review and consent rights where CAISO physically conducts the interconnection studies. In addition, the PTOs request that the Commission clarify that, in the event of a dispute, they may use CAISO's dispute resolution process. We clarify that, if CAISO does physically conduct interconnection studies, the PTOs should have adequate review and recommendation rights. Granting the PTOs consent rights would be equivalent to allowing the PTOs to control the study process. Therefore, we deny the PTOs' request for rehearing on the issue of consent rights. We further clarify that in the event of a dispute, any party can use CAISO's dispute resolution process.

Request for Rehearing on Proposal to Require Additional Security

23. We agree with the PTOs that O&M expenses associated with interconnection facilities are not included in their transmission revenue requirements. However, we find that requiring Transmission Customers to provide additional security to cover four months of O&M expenses, as well as estimated removal costs, is unduly burdensome for Interconnection Customers and could discourage the construction of new generating capacity. The main purposes of Order Nos. 2003, 2003-A, and 2003-B were to standardize interconnection agreements and eliminate undue discrimination in the provision of interconnection services.

24. The July 1, 2005 Order applied the independent entity standard to the LGIA jointly filed by CAISO and the PTOs. The PTOs' Motion asserts that since CAISO does not have a financial stake in the Interconnection Facilities, CAISO does not require additional security. Instead, the PTOs are the ones that require this additional security. Their Motion attempts to justify the need for additional security by stating that a credit instrument, such as additional security, is the only way for the PTOs to ensure that they recover O&M and removal costs. Order No. 2003 sets forth requirements for the level of security that Interconnection Customers are required to pay. The PTOs claim that the Order No. 2003 security requirements are insufficient to meet their needs, but have failed to demonstrate why their situation is any different from other Transmission Providers. Therefore, we find that the PTOs have failed to meet the independent entity variation standard and we reject their proposed modification to the *pro forma* LGIA.

The Commission orders:

(A) The PTOs' request for clarification is granted, as discussed in the body of this order.

(B) The PTOs' request for rehearing is denied, as discussed in the body of this order.

(C) An extension of time to comply with the study process requirement in the July 1, 2005 Order is hereby granted to and including October 14, 2005, as discussed in the body of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.